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The worst is over as market stabilizes

The current state of the Metro Vancouver industrial market can be characterized as stable, with a growing perception amongst local industrial stakeholders that the worst of the economic contraction is over and the marketplace is beginning to witness incremental improvements.

While the overall leasing market has remained relatively flat over the past six months, activity has improved over late 2008 and early 2009 as confidence slowly returns and pent-up demand continues to build. Speculative construction is in check and the region's overall vacancy, although continuing to creep up, still ranks among the lowest in North America. Moreover, demand for investment product remains strong, with plenty of equity seeking solid, long-term income from leased industrial product.

Having said that, overall vacancy will level off for some time before falling as user demand continues to be low with few offers for available space (either for lease or for sale) from operating companies. Tenants looking to buy have temporarily dropped out of sight as they concentrate on re-investing capital into their core business. The main impediments to more industrial transactions are the lack of available quality product, a more conservative lending environment, and the chronic shortage of affordable industrial zoned and serviced land for development in certain regions of Metro Vancouver.

Vacancy rate notches up

Metro Vancouver's overall industrial vacancy rate continued its upward trek over the past six months to reach a current rate of 4.4%. This is up from 3.2% in spring 2009 and 2.4% in fall 2008 and after nestling under the 2% mark between early 2006 and mid-year 2008.

The availability rate (which includes head lease or sublease space that is being marketed but is not physically vacant, or new supply that is nearing completion and available for lease) is estimated to be around 7%, up from approximately 6% in spring 2009. (Worth noting is that the amount of vacant space is insignificant in a North American or national context.)

The majority of the current available space exists in east Richmond, Gloucester Industrial Estates (Langley), Port Kells (Surrey), Campbell Heights (Surrey), and Annacis Island (Delta). Most notably, 263,000 sf is still available at Hopewell Development's new distribution centre in Richmond.

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Metro Vancouver Industrial Overview

Fall 2009

**AVISON
YOUNG**

Intelligent
Real Estate Solutions

Special Feature Inside:

Q&A with Randy Powell, Henri Legal,
Ron Martini, Peter Leitch and Bill Tucker

See pages 4-5

Metro Vancouver Industrial Market Snapshot

Market	Industrial Inventory Square Feet (sf)	Vacancy
Richmond	33,916,329	5.3%
Surrey	27,295,129	3.8%
Burnaby	25,980,558	2.6%
Vancouver	21,868,456	2.8%
Delta	20,125,184	6.4%
Langley	15,084,265	8.1%
Coquitlam	7,469,071	1.9%
Port Coquitlam	6,625,986	2.6%
Abbotsford	5,397,197	6.4%
North Vancouver	5,010,624	2.7%
New Westminster	3,682,315	6.2%
Maple Ridge / Pitt Meadows	2,197,281	2.8%
TOTAL	174,652,395	4.4%

Market Indicators (change from six months ago)



ABSORPTION



CONTAINER SHIPPING
VOLUME



CAP RATES



VACANCY RATE



CONSTRUCTION



RENTAL RATES



RETAIL SALES

The overall rise in vacancy, which is providing tenants with more options, is mainly attributed to new speculative construction completions (projects that were launched prior to the economic slowdown but completed in recent months) and an increase in sublease space as tenants continue to cut costs and downsize. Other contributing, but less influential, factors include bankruptcies and closures – also aftershocks of the global credit crisis. While some tenants tried to hang on to see if they could weather the storm, many couldn't and had to close or reduce their square footage.

This trend is not expected to continue as the Metro Vancouver industrial market is dominated by smaller tenants or those servicing the local market as opposed to other Canadian and U.S. markets, which would have a snowball effect on demand. Furthermore, the market is witnessing an increase in confidence amongst tenants and the pace at which sublease space is coming to the market has moderated.

New construction activity tapers

After bringing on substantial new supply (for this market) of between 3 million square feet (msf) and 5 msf per year between 2005 and 2008, and with much of 2009's new supply witnessing little leasing activity, new construction activity will moderate going forward. Minimal new speculative inventory is planned in the central business district as most future growth will occur in the suburbs near the new South Fraser Perimeter Road (Surrey/Delta), Golden Ears Bridge (Pitt Meadows/Maple Ridge/Langley) and Agricultural Land Reserve exclusions in Abbotsford.

The City of Surrey has also designated the Bridgeview/South Westminster area as a new investment zone with the intention of encouraging more economic activity and job creation in this area. The incentives included in this area are: 1) elimination of municipal property taxes for a three-year period from the completion of construction; 2) reduction of development cost charges by approximately 33% compared to current rates; and 3) reduction in building permit fees by 50%. While incentives such as these are common practice in the U.S., the ones outlined above are unprecedented in the Metro Vancouver industrial market, and may initiate similar economic incentives in other municipalities in this region.

Overall, the market has historically seen disciplined introduction of new supply of the speculative construction variety due to the risk-averse nature of the region's industrial developers, lack of affordable land options, and lending policies of traditional financial institutions.

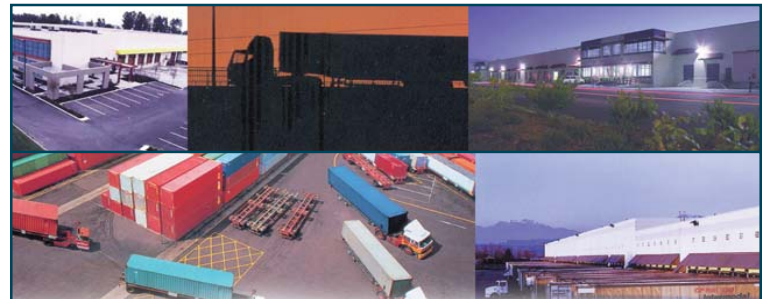
Rental rates to dip then rise

The local market is expected to see downward pressure on rental rates until the end of the first quarter of 2010. Rents are then anti-

pated to trend upward as absorption increases against a dormant speculative industrial development market segment.

The high-water mark of \$9 to \$10 per square foot (psf) for new and class A product in the core areas of Richmond, Burnaby and Vancouver in 2007 and 2008 has decreased to \$8 to \$9 psf. Average asking rents for distribution facilities, which were driven up by high land and construction costs in recent years, have dipped to \$6.50 to \$7.50 psf from \$7 to \$8.50 psf at mid-year 2008. To put this in perspective, average rental rates soared approximately 40% between 2003 and 2008 before flatlining in the latter part of 2008.

Today, some landlords are willing to attract activity by offering inducements and free rent, although these concessions are fairly limited due to the lack of head lease space. Meanwhile, rents being offered for sublease space are still up to 30% lower than rents for head lease space.



Land values down over 2008

The market has witnessed very few land sales over the past six months and those who are selling have more realistic expectations based on buyers' perceptions of values. Average land prices doubled between 2003 and 2008, reaching approximately \$600,000 per acre in Abbotsford to \$2 million per acre in Vancouver (and a record \$4 million per acre in some Vancouver locations) before cresting in the latter part of 2008, due partly to surging construction costs. Over the past year, land values have generally fallen 20% to 25% and in some cases more than 30%.

Typical industrial land prices currently range from \$400,000 to \$1 million per acre depending on location and condition (serviced, cleared, filled), with the exception of Vancouver and the North Shore where values remain at \$2 million-plus per acre due to supply constraints.

The economic contraction has effectively deflated construction costs and, with lower land values, has allowed developers to prepare to deliver future projects that will require lower rental rates for prospective tenants to consider.

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Recent Notable Lease Deals

ADDRESS	MUNICIPALITY	TENANT	SQUARE FEET
1425/1451 Derwent Way	Delta	Unisource Canada Inc.	282,526
16131 Blundell Road	Richmond	Acklands Grainger Inc.	180,000
7708 80th Street	Delta	VicWest Corporation	91,450
455 Kent Avenue	Vancouver	The Canadian Fishing Company	90,720
2133 191st Street	Surrey	Quality Chain Canada ULC	88,400
1587 Derwent Way	Delta	L.V. Lomas Ltd.	76,894
1488 Derwent Way	Delta	Western Waffles	62,111
9200 Van Horne Way	Richmond	Richards Packaging Inc.	61,721

Industrial prices do not follow residential patterns

Metro Vancouver's rising residential property prices are boosting investor confidence in industrial property deals.

Industrial sales and prices are picking up as the residential market makes a dramatic comeback from where it was six to 12 months ago. However, industrial property buyers and sellers should not expect the same rapid price hikes that have occurred on the residential side.

Since the industrial sector's peaks and valleys are typically less pronounced, it has not experienced the same large retrenchment in values and subsequent huge bounceback that residential has. Most industrial gains have been modest.

Industrial land values have contradicted this rule; they did, indeed, skyrocket during a short period of time. Not very long ago, an owner-operator or investor could buy a piece of property and construct a new building for less than the cost of an existing structure. As land prices and construction costs rose to their peak values in mid-2008, this relationship reversed.

But industrial land prices have since dropped in line with general market trends, and construction costs have tempered to the point where new construction is again cheaper than existing buildings.

Sellers of vacant industrial buildings have witnessed a resurgence of interest from owner-occupants and investors. But industrial vacant-building and lease values did not drop as sharply as their residential counterparts, so increases on the industrial side are not expected to be as great.

Reduced sales velocity has been the most noticeable effect since the collapse of U.S. institutional investment powerhouse Lehman Bros. As land and vacant-building sales volumes rise, prices are expected to climb moderately – in other words, at a realistic pace based primarily on business fundamentals in a particular industrial sector.

While the residential market is often subject to consumer perception, the industrial sector hinges more on companies' business decisions. Perception is still a factor with industrial, but less so than on the residential side. With industrial buyers and sellers, it's more a question of when – not if – they will make a move.

As a result, industrial vacancy rates and sublease opportunities are expected to continue to rise slightly – until owner-operators take a

more bullish approach to their space requirements. Current trends indicate that industrial owner-occupants will continue to take a wait-and-see approach rather than expand their operations.

Consequently, lease rates are dropping as sublease opportunities rise, while head lease rates are not expected to change dramatically.

Owners who are more concerned about filling space, rather than effects on their property values, may reduce their lease rates. On the other hand, a landlord who is more concerned about maintaining a building's capitalized value may prefer to let some space sit vacant – on the assumption that a target lease rate can eventually be achieved.

Continuing a trend prevalent in the previous six to 12 months, some subleases are being offered at a significant discount to face value. As the global financial meltdown continues to deliver after-shocks, tenants are attempting to recover from their business losses and minimize financial obligations related to their leases.

While the number of vacant buildings is on the rise, Metro Vancouver's industrial vacancy rates are still the lowest in North America, thanks to a starting point of 3% at the outset of the recession and a modest inventory of 170 million square feet. The region's geographical constraints, which include mountains, ocean and the Canada-U.S. border, and regulatory hurdles related to the Agricultural Land Reserve, help to limit supply and stabilize prices and lease rates.

In other words, tight land supply remains a key issue. It will help stabilize Metro Vancouver's industrial market – especially in core areas like Vancouver, Burnaby and New Westminster – while continuing to offer steady, unspectacular yields.

Metro Vancouver's market capitalization rates, which measure net income versus asset value and traditionally rank among the lowest in the country, have remained in the 6% to 7% range. In core markets, cap rates have increased by, at most, 25 to 50 basis points (bps). In secondary and tertiary markets like Surrey and Langley, yields have grown slightly more, within a range of just 100 to 125 bps.

The underlying message: Metro Vancouver's industrial real estate market shows signs that it has not experienced the same rapid increases in velocity and values as the residential sector, due mostly to modest declines at the outset of the recession, strong fundamentals and supply constraints, and continued user and investor confidence. While demand has been tepid lately, it is expected to rise as pent-up requirements and more capital return to the playing field. ■

Recent Avison Young Transactions



**1272 DERWENT WAY,
DELTA**
• 148,000 sf



**2575 BARNET HIGHWAY,
COQUITLAM**
• 8,500 sf



**23660 WESTMINSTER HIGHWAY
3951 BOUNDARY ROAD,
RICHMOND**
• 12.67 acres



**1950 FRANKLIN STREET,
VANCOUVER**
• 13,000 sf

Q & A



Randy Powell
President,
Armstrong Group,
owners & operators of
Rocky Mountaineer
Vacations



Henri Legal
Sr. Director
Operations, Canada,
Maersk Distribution
Canada Inc.



Ron Martini
President,
Starline Windows



Peter Leitch
President,
North Shore Studios



Bill Tucker
Managing Principal,
Omicron

Avison Young asked five prominent executives from various sectors of Metro Vancouver's industrial market how the economic slowdown has affected their businesses over the past 12 months and how it will impact their businesses over the next 12 months.

Here's what they had to say...

1. How has the economic slow-down affected your business over the past 12 months?

Powell: The slowdown has had a dramatic impact on the tourism business globally, nationally and locally. It was of particular shock to this industry, as it had enjoyed significant growth for a prolonged period of time... and was predicted to continue. There have been a variety of responses, from deep price cuts in an attempt to recapture volume... to holding prices but dramatically reducing operating costs. In the end, the revenue reductions are double digit and have created a new, lower platform to build from. Although it has been difficult to adjust to so quickly, the downturn was not all bad. In a rapidly growing industry, we sometimes forsake efficiency and productivity. Tourism is and must continue to drive cost out, rapidly increase productivity and enhance quality in this globally competitive industry.

Legal: There is no doubt that the global economic meltdown was a significant blow to most businesses in Canada. The first noticeable aspect was the immediate reduction in supply which was necessary in order to reduce retailer inventory levels. While this is generally not under the direct control of third-party logistics (3PL) providers, it definitely affects those in the transload and warehouse business.

The 12 months leading up to this downturn were filled with opposite challenges where capacity was stretched to the maximum. Labour

shortages were beyond anything we had seen in years, and all of a sudden we had the reverse effect on our hands. On top of that, we were forced to make some changes to our organizations that were not pleasant or popular.

It became necessary to look at all of our capital expenditures, labour levels, individual capacities and so on. The mode of operation has simply been to do it smarter, offer the best value possible, look for opportunities to cut costs and eliminate anything that does not add value to the organization or the customer.

Martini: At the onset of the economic instability here in Canada, the manufacturing industries – particularly the building industry – were hit the hardest. Our company, being a major player in this trade, was not exempted from its sternness. Our production assembly line has decreased more than 75% compared to the same period last year.

The major predicament that has confronted us, over the last twelve months, is not the lack of sales per se. As a matter of fact, we still have in our possession major projects and contracts that were awarded to us, but are on hold. One of the major difficulties is the manner the financing institution is handling this scenario. The builders and developers are ready to build and so are we, but without the solid financial backing of these institutions, we are literally helpless.

The media was not on our side, either. They have painted a doom and gloom picture, which has caused most consumers to be extremely

wary about their expenditures. This has, in turn, caused the real estate market to experience a radical decline.

Leitch: The economic downturn resulted in an initial unexpected benefit of a stronger U.S. dollar, which benefitted the film industry in BC because the majority of the work is U.S.-based productions. The demand for product was also stable. Historically, the film and television industry is considered a relatively inexpensive form of entertainment, so in economic downturns the industry generally does well.

The lack of access to capital for smaller independent film producers resulted in fewer of these projects being done, so this was one of the negative impacts of the economic downturn. Also, there has been pressure on advertisers in the television market to reduce their budgets. This has added downward pressure on television production budgets forcing networks to shop for the lowest possible cost jurisdiction. With other aspects of the economy doing poorly in many U.S. states, they have opted to offer very aggressive tax credits to attract the film and television sector. We are accordingly faced with substantial competition from a number of states. Ontario and Quebec recently doubled their tax credits, which has resulted in a loss of business in BC to these provinces.

Tucker: Over the past year we have continually restructured our business to meet the changing needs and available opportunities in the marketplace. The first six months following September 2008's meltdown, we focused on

shedding costs and re-aligning our resources. Over the last six months, our focus has been on building new pipelines of business. Largely, this included a shift from an emphasis on heavy commercial to more government-backed tenant and ground-up development activity.

Consistently over the past 12 months, we have seen increased sub-contractor and labour availability. Both factors are contributing to tighter and more competitive pricing. Increased labour availability is resulting in more productive trade workers being available and, thus, better schedule performance. With the increasing labour supply, we are experiencing high expectations from our clients for price and schedule reductions.

2. How do you see the economy affecting your business over the next 12 months?

Powell: As we look forward over the next 12 months, our industry, and certainly my company, are cautiously optimistic. With a product sector that is primarily based on discretionary spending, where goes the economy, goes tourism. There is no doubt that in the long term, tourism is a vibrant and highly attractive growth industry. That said, 2010 will likely be a series of small rises and falls, with a slightly stronger upturn towards the back half of the year. Like all industries, executing against the fundamentals will be the ticket to short-term survival ... and long-term success. In all probability, tourism won't show significant rebound until 2011. At that time, a slightly smaller but stronger group of companies will emerge from this economic challenge, with better products and services ready to meet the pent-up demand of the travelling consumers.

Legal: The next 12 months are not predicted to be stellar or much better than the previous 12. Having said that, most 3PL providers are prepared for this. Everything we have done to this point is about doing more with less. We run everything as tight as possible, but everyone knows that this is not sustainable if we experience any kind of positive changes in the marketplace.

For this next period, we will look at ways to prepare for that time. Investing in our existing labour will be critical. This is a good opportunity to explore new concepts and train people to handle the business as it grows. Those who can will invest in better warehouse systems and

equipment, with the anticipation that they will increase warehouse and labour capacity.

We also need to work with our customers in order to further develop the supply chain, especially when it comes to seamless end-to-end information sharing. This is something that has been discussed to death in our industry, and it has not moved along as well as one might expect. It will now be more critical than ever as it will allow retailers to control inventories and provide more of a just-in-time type system. This means that some will redefine their supply chains and ultimately, they will look to reduce inventory levels further, which means less need for storage space. As they refine and mature their supply chains, we too will be forced to make changes in our business in order to accommodate.

"We are re-initiating our hiring strategies in anticipation of a more full recovery coming in 2011"

— BILL TUCKER

Martini: The future is looking brighter for us, although we anticipate a slow but steady recovery of our economy. The erstwhile talk about a serious economic depression that haunted many of us in the last 12 months is in some way dissipating. To date, we are already experiencing an early glimpse of an economic upturn. We have project developers who have started to communicate with us. They are geared up to start the projects that were put on hold in the previous months.

In the last three months, our residential production line volume has literally increased to full capacity. As the financial institutions anticipate the stability of the economy, we are expecting them to release more funds for various building projects. Being a key participant in the window industry, we are looking forward to a greater market share. We might not experience the same production volume that we used to have in the highrise market, but we are confident that whatever we have today will catapult to a better future.

Leitch: The next 12 months look to be very challenging in the film and television business. With the dollar closing in on par, BC is becoming

less competitive. Ontario and Quebec's dramatic increase in incentives to attract the business are working, and we are now seeing many projects relocated to these jurisdictions. U.S. states such as Georgia, Louisiana, New York, Michigan and others are also offering great incentives— and with no need to cross an international border. We expect the BC government will become more competitive with respect to the credits in the coming weeks. Financing and distribution for Canadian productions has continued to be challenging and this industry segment has downsized as a result.

We do believe we have a great opportunity to become one of the leading digital entertainment centres. Companies such as Deluxe, Technicolor and more recently, Pixar have located in BC and, combined with gaming giant Electronic Arts, give us a huge advantage over other jurisdictions in developing a world-class talent pool in digital entertainment. In the long term, if we can maintain competitive tax credits, we believe this sector will continue to be a major contributor to the economy and provide excellent employment opportunities.

Tucker: Over the next 12 months, we expect to see the design and construction work in our various market segments change once again. New government sector projects will continue as the stimulus programs work their way through the typical project cycles. However, we are seeing increasing interest from commercial operators to initiate retail, office, residential, and industrial projects. These projects are at an early stage and thus require support from architecture, engineering and interior design resources. We are re-initiating our hiring strategies in anticipation of a more full recovery coming in 2011.

As companies continue to work off a construction backlog signed post-September 2008, we expect the labour supply and sub-contractor availability to be largely unconstraining through 2010. This will continue to create a very price-competitive market; however, we don't expect any significant decreases in construction pricing. Compared to October 2009 costs, we anticipate prices to remain relatively stable or increase slightly due to increases in material costs over the next 12 months. We are cautiously optimistic that design and construction activities will make a continued recovery and that prices and labour supply will remain at more reasonable, constant levels over the next few years. ■

Avison Young Industrial Lease Listings



889 MARY HILL BYPASS, COQUITLAM

- Up to 45,000 sf Warehouse Distribution space
- 1 to 6 acres of land available separately
- \$7.50 psf gross for building and \$1.50 psf gross for land

Contact: Michael Allen / Robert Gritten



333-13988 CAMBIE RD, RICHMOND

- 3,300 sf of Office/Warehouse space
- Grade loading
- 24' clear ceiling height
- High-quality office improvements

Contact: Ryan Kerr



7-11771 HORSESHOE WAY, RICHMOND

- 3,300 sf of Office/Warehouse space
- Grade loading
- Great exposure onto Horseshoe Way
- 9 surface parking stalls

Contact: Ryan Kerr



3260 PRODUCTION WAY, BURNABY

- 63,000 sf of Office/Warehouse space
- 15 dock & 1 grade
- 22' clear ceiling heights
- M-3 zoning (Heavy Industrial)

Contact: John Lecky / Struan Saddler / Kyle Blyth / Matt Thomas



8740 GREENALL AVENUE, BURNABY

- 3,000 sf of Office/Warehouse space
- Dock loading
- 22' clear ceiling height
- M-2 zoning
- \$9.00 psf lease rate

Contact: Kyle Blyth



3676 BAINBRIDGE AVENUE, BURNABY

- 85,000 sf of Warehouse/Freezer space
- Dock loading
- M2/M5 zoning
- \$7.15 psf lease rate

Contact: Kyle Blyth / Bill Elliott



1633 CLIVEDEN AVENUE, DELTA

- 32,154 sf of Office/Warehouse space
- Dock & grade loading
- 25' clear ceiling height
- I-2 zoning (Heavy Industrial)

Contact: Ryan Kerr / Doug McMurray



102 - 13070 115 AVENUE, SURREY

- 9,501 sf of Warehouse/Mezzanine
- Dock and grade loading
- 26' clear ceiling heights
- I-L zoning

Contact: Jot Mattu / Sam Fogell



104 - 2567 192 STREET, SURREY

- 8,823 sf of Warehouse space
- 2 dock loading doors
- 24' clear ceiling heights
- I-B1 zoning

Contact: Jot Mattu

Avison Young Industrial Sublease Listings



1755 COTTRELL AVENUE (OFF TERMINAL AVENUE), VANCOUVER

- 34,470 sf Warehouse Distribution space
- 3.5 acres of yard
- Rent negotiable
- Available immediately

Contact: Michael Allen / Robert Gritten



1577 MAIN STREET, VANCOUVER

- 13,000 sf Auto Dealership Showroom
- 1.4 acres of site area
- Rent negotiable
- Available immediately

Contact: Michael Allen / Robert Gritten



1-1225 EAST KEITH ROAD, NORTH VANCOUVER

- 1,000 sf to 10,000 sf Office/Warehouse space
- Ideal location
- Dock loading

Contact: Matt Thomas

Avison Young Industrial Sale Listings



195-207 PEMBERTON AVENUE, NORTH VANCOUVER

- 2,000 sf to 16,461 sf available
- Heavy power
- High exposure location
- Ample on-street parking

Contact: Matt Thomas



3399 BRIDGEWAY STREET, VANCOUVER

- Gross area 0.866 acres; net useable .51 acres
- Excellent highway access
- Asking \$1.2 million

Contact: Michael Allen / Robert Gritten



1485 COAST MERIDIAN ROAD, PORT COQUITLAM

- 41,000 sf of multi-tenant industrial on 3.9 acres
- 24% site coverage \$8.70 psf average rent
- \$5.75 million

Contact: Robert Gritten / Michael Allen



1518 COLUMBIA STREET, NORTH VANCOUVER, BC

- \$2,075,000 – price reduced
- 9,207 sf
- I-2 zoning
- Proximity to Hwy #1 and Second Narrows Bridge

Contact: Matt Thomas / Kyle Blyth



18917 24 AVENUE, SURREY

- 19.56 acres for \$10.5 million or approximately \$537,000 per acre
- Adjacent to Loblaws' new 422,000 sf distribution centre
- Designated industrial in OCP

Contact: Jot Mattu/ Bal Atwal



2555 BARNET HIGHWAY, COQUITLAM

- Property and operating business for sale
- 26,260 sf on 1.4 acres
- New car (German) dealership
- Asking \$6.5 million + business assets @ book value

Contact: Michael Allen / Robert Gritten

Recent Industrial Investment Sales



570-590 CHESTER ROAD, 600 CHESTER ROAD, 1175 DERWENT WAY, DELTA

- Vendor: Grosvenor Canada Limited
- Purchaser: Glassman Investments (Chester Warehouse Ltd.)
- Purchase Price: \$19,000,000
- Price Per Square Foot: \$84.78
- Building Size/Site Area: 224,106 sf/11.27 acres



2000 HARTLEY, COQUITLAM

- Vendor: Art In Motion (505376 B.C. Ltd.)
- Purchaser: JET Equipment & Tools Ltd. (0854995 B.C. Ltd.)
- Purchase Price: \$13,500,000
- Price Per Square Foot: \$100.60
- Building Size/Site Area: 134,194 sf/5.50 acres



2700 SIMPSON ROAD; 2700-2777 OLAFSEN ROAD, RICHMOND

- Vendor: Summit REIT (SREIT (2700 Simpson Road) Ltd.)
- Purchaser: Bosa Group (Blue Sky Properties Inc.)
- Purchase Price: \$9,900,000
- Price Per Square Foot: \$66.00
- Building Size/Site Area: 150,000 sf/6.79 acres

Recent Notable Industrial Land Sales

ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	SITE AREA	PRICE PER ACRE
7722 Progress Way, Delta, BC	John Bertram Thomas	Merritt Holdings Inc.	\$1,200,000	1.49 acres	\$808,080
10064 River Road, Delta, BC	Delta Cedar Products Ltd.	70 Golden Drive Ltd.	\$8,675,000*	21.92 acres	\$395,757
19298 21st Avenue, Surrey, BC	Porcelacast Properties Inc.	0861214 B.C. Ltd.	\$2,540,580	3.68 acres	\$690,000

* prior to remediation

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Capitalization rates soften

Demand for investment sale product remains strong, and investors must still pay a high admission price to acquire quality industrial product. In the first half of 2009, Metro Vancouver industrial deals doubled the number of properties traded in the second half of 2008. Property prices, however, did not drop as low as some buyers had expected as most sellers did not reduce their expectations due to continuing supply constraints. Despite healthy demand, the main hindrance to more sales is the scarcity of prime product available.

The average value of vacant industrial buildings increased significantly in recent years, with offerings reaching fever pitch in mid-year 2008 at \$150 to \$170 psf for well-located buildings. Today, average values are closer to \$100 to \$130 psf. Capitalization rates have softened to 6.5% today from a peak of 6% for prime industrial properties at mid-year 2008. Meanwhile, older less prime properties sold in the first quarter of 2009 at 7.5% to 8.5%, versus 6.75% to 7.5% at mid-year 2008. The market is not seeing evidence of 8.5% cap rates now as distressed vendors were limited and no longer exist.

As the economy continues to improve and more credit becomes available under reasonable terms, Canadian and foreign institutional players are expected to become more active in the industrial market. Institutions and REITs, thanks to stronger balance sheets and decreased dividend yields, are positioned to re-enter the industrial market. Their activity, however, is always tempered by more attractive yields offered in other parts of Canada.

Growth will be modest as market climbs out of recession

Overall, the industrial market, which tends to lag other sectors, will continue to move slowly over the next year. Confidence needs to return in full and orders need to increase and stabilize for some time before demand for space will return. Metro Vancouver's overall vacancy rate is expected to trend upward, but at a slower pace, closing 2009 at around 5%. Supply will continue to be driven by build-to-suit demand and modest speculative development later in the cycle. The investment market will continue to witness healthy demand due to limited supply, with cap rates stabilizing between now and early 2010. As always, upward movement in interest rates will drive a corresponding rise in cap rates, although the cap rate reaction tends to lag interest rate movement by several quarters.

All in all, the Metro Vancouver industrial market will close 2009 and begin 2010 with more positive momentum than it did a year ago, and the region's fundamentals (vacancy rate, supply-demand metrics) continue to be the strongest in North America. ■

Avison Young

VANCOUVER

#2100 - 1055 West Georgia Street

PO Box 11109, Royal Centre

Vancouver BC V6E 3P3

TELEPHONE: (604) 687-7331

FAX: (604) 687-0031

www.avisonyoung.com

For more information please contact:

Sherry Quan

National Director of Communications & Media Relations

Direct Line: (604)-647-5098

squan@ay-bc.com

Monte Stewart

Marketing Writer

Direct Line: (604)-646-8381

mstewart@ay-bc.com

Avison Young Industrial Team

Michael Allen

mallen@ay-bc.com

Ryan Kerr

rkerr@ay-bc.com

Kyle Blyth

kblyth@ay-bc.com

Manjot Mattu

mmattu@ay-bc.com

Robert J. Gritten

rgritten@ay-bc.com

Doug McMurray

dmcsmurray@ay-bc.com

John Lecky

jlecky@ay-bc.com

Struan Saddler

ssaddler@ay-bc.com

Ben Lutes

blutes@ay-bc.com

Matt Thomas

mthomas@ay-bc.com

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